

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 2684

January 19, 2010

SUMMARY OF BILL: Reduces the state sales tax rate on food and food ingredients from 5.5 percent to 4.5 percent for FY11-12; from 4.5 percent to 3.5 percent for FY12-13; from 3.5 percent to 2.5 percent for FY13-14; from 2.5 percent to 1.5 percent for FY14-15; permanently eliminates the state sales tax on food and food ingredients beginning in FY15-16.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact –

**\$91,898,400/FY11-12
\$188,391,800/FY12-13
\$289,653,800/FY13-14
\$395,858,300/FY14-15
\$557,912,700/FY15-16 and Subsequent Years**

Decrease Local Revenue - \$4,423,600/FY11-12

**\$9,068,400/FY12-13
\$13,942,700/FY13-14
\$19,054,900/FY14-15
\$26,855,500/FY15-16 and Subsequent Years**

Other Fiscal Impact - Beginning in FY16-17, there will be additional forgone revenue to state and local governments due to the natural growth of taxable food sales. As taxable food sales grow each year, forgone sales tax revenue will increase. Assuming taxable food sales grow by 2.0 percent from FY15-16 to FY16-17, total forgone sales tax revenue for FY16-17 would be approximately \$11,695,400. Of this amount, the state would forgo approximately \$11,158,300, and local governments would forgo approximately \$537,100 as a result of state-shared sales tax apportionment. These forgone amounts will increase each subsequent year by the rate at which taxable food sales grow in the future.

Assumptions:

- “Food and food ingredients” means substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, that are sold for ingestion or chewing by humans and are consumed for their taste or nutritional value.

- “Food and food ingredients” does not include alcoholic beverages, tobacco, candy, dietary supplements, or prepared food.
- According to the Department of Revenue, approximately \$496,780,000 in sales tax revenue was collected from the sale of food and food ingredients during FY08-09 (from August 2008 through July 2009).
- Taxable sales of food and food ingredients for FY08-09 is estimated to be \$9,032,363,600 ($\$496,780,000 / 5.5\% \text{ rate} = \$9,032,363,636$).
- Based on recent price increases as measured by the Consumer Price Index for Food (Source: U.S. Department of Agriculture), food prices are estimated to increase by 2.0 percent per year.
- Taxable food sales are estimated to increase by an additional 0.50 percent in each FY11-12, FY12-13, FY13-14, FY14-15, and FY15-16 due to the elasticity factor resulting from each year’s proposed rate reduction.
- Taxable sales (adjusted for growth and elasticity factor) are estimated to be \$9,632,202,900 for FY11-12; \$9,873,007,900 for FY12-13; \$10,119,883,100 for FY13-14; \$10,372,829,000 for FY14-15; and \$10,632,149,700 for FY15-16.
- The decrease of state sales tax revenue is estimated to be \$96,322,000 in FY11-12; \$197,460,200 in FY12-13; \$303,596,500 in FY13-14; \$414,913,200 in FY14-15; and \$584,768,200 in FY15-16.
- The ability of local government to assess local option sales tax on food and food ingredients is not impacted by this legislation.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local government receives a 4.5925 percent allocation of state sales tax revenue as state-shared taxes.
- Local governments are not held harmless from the loss of state-shared sales tax revenue.
- The decrease to local government revenue (state-shared tax revenue) is estimated to be \$4,423,600 in FY11-12; \$9,068,400 in FY12-13; \$13,942,700 in FY13-14; \$19,054,900 in FY14-15; and \$26,855,500 in FY15-16.
- The net decrease to state sales tax revenue is estimated to be \$91,898,400 in FY11-12; \$188,391,800 in FY12-13; \$289,653,800 in FY13-14; \$395,858,300 in FY14-15; and \$557,912,700 in FY15-16.
- There will be additional and increasing amounts of forgone sales tax revenue beginning in FY16-17 and in subsequent years due to the natural growth of taxable food sales.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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